

SUMMARY OF ADVANTAGES FOR FINANCIAL INSTITUTIONS TO PARTICIPATE IN THE COLLATERAL POOL

1. The pledging, substitution, and releasing of collateral is processed through the State Treasurer's office for all public deposits rather than through each local government.
2. Overpledging of collateral is reduced when collateral is based on one overall account rather than multiple governmental accounts.
3. One trustee custodian can be utilized to hold the collateral rather than possible multiple trustee custodians as may be directed by various local governmental entities.
4. One collateral pledging agreement is signed with the State Treasurer rather than multiple agreements with each local governmental entity.
5. Elimination of the reporting of collateral as may be required by the various local governmental entities.
6. Resolution of collateral qualification issues is centralized.

SUMMARY OF ADVANTAGES FOR LOCAL GOVERNMENTS TO UTILIZE A FINANCIAL INSTITUTION IN THE COLLATERAL POOL

1. Local government does not have to execute and maintain a trustee custodian agreement for the holding of collateral.
2. Local government does not have to maintain an inventory of pledged collateral.
3. Local government does not have to reconcile collateral inventory to the trustee custodian each month.
4. Local government does not have to determine if collateral being pledged qualifies pursuant to TCA, Section 9-4-103.
5. Local government does not have to authorize the pledging, releasing, and substitution of collateral.
6. Local government does not have to price collateral daily.
7. Local government does not have to secure additional collateral if deposits increase or if value of collateral declines.

SUMMARY OF BENCHMARKS FOR COLLATERAL PLEDGE LEVELS

RATIOS		(1) 90% LEVEL	(2) 100% LEVEL	115% LEVEL
Sheshunoff Ranking	(Minimum)	40 or debt rating	25	15
Primary Capital to Total Assets	(Minimum)	6.25%	5.50%	5.50%
Total Capital to Total Assets	(Minimum)	6.75%	6.00%	6.00%
Tier 1 Capital	(Minimum)	4.00%	4.00%	4.00%
Tier 2 Capital	(Minimum)	8.00%	8.00%	8.00%
Loan Loss Allowance	(Minimum)	100.00%	75.00%	75.00%
Loans 90 Days Past Due	(Maximum)	1.00%	2.00%	2.00%
Non-Performing Assets	(Maximum)	1.50%	3.00%	3.00%
Return on Average Assets	(Minimum)	1.00%	0.75%	0.75%
Loans to Total Assets	(Maximum)	80.00%	80.00%	80.00%

(1) 90% Level

Can not fail any of the four (4) capital ratio.

Can not fail any two (2) of the five (5) non-capital ratios for two (2) consecutive quarters.

Sheshunoff ranking of 40 or investment grade debt rating.

(2) 100% Level

Must pass three (3) of the capital ratios.

Must pass seven (7) of the nine (9) benchmarks.

Must have at least twelve (12) quarters of history.

STATE OF TENNESSEE



COLLATERAL POOL BOARD

P.O. BOX 198785
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Dear Banker:

Tennessee's Collateral Pool was authorized by the General Assembly in 1990 to allow financial institutions and local governments statewide to participate in a pool designed to provide greater efficiency and a lower risk when collateralizing public funds.

The following manual is designed to provide information to help you determine if the Collateral Pool is suitable to your needs. In addition, it is intended to provide instructions for applying for participation in the Collateral Pool and for operating within the Pool.

This manual contains an overview of the Collateral Pool operations, a summary of the Collateral Pool Rules, complete instructions for applying to participate in the pool, pool participation forms and instructions. If you have questions concerning this manual or the operation of the Collateral Pool, please contact the Collateral Pool staff at (615) 532-1168.

The primary objective of the Collateral Pool has been to provide an effective and efficient, low risk system for collateralizing public funds while making the system easy to use.

We hope that you will find the Collateral Pool an attractive option which will prove beneficial to your operations.

Sincerely,

A handwritten signature in black ink that reads "Steve Adams". The signature is written in a cursive style with a large, stylized "S" and "A".

Steve Adams
State Treasurer